

The South's Timber Export Potential

By DR. JAMES E. GRANSKOG, *Principal Economist, U.S. Forest Service*
Southern Forest Experiment Station

Exports of southern wood products have been declining since 1980, following a dramatic rise during the 1970s. The value of these exports rose from near the \$50 million level in the early 1970s to almost \$500 million in 1980, but has dropped by more than a third since then. Now, however, changing monetary conditions appear to be turning the trend upward again.

Currency fluctuations have been a key factor affecting the overall trend for southern wood exports. The strong upturn during the 1970s was stimulated by weakening U.S. dollar. In effect, prices of southern wood products — in terms of foreign currencies — were reduced.

On the other hand, the more than 50 percent rise in the value of the dollar against the currencies of our major trading partners from mid-1980 through early 1985 made U.S. products more expensive and less competitive in world markets. The results: falling exports and rising imports — including eucalyptus pulp from Brazil, coated paper from Scandinavia, and more softwood lumber from Canada.

Since March 1985, however, currency conditions have changed again. The value of the dollar has dropped by about 30 percent, and oil prices have plummeted — which especially helps many foreign economies, because oil is priced and sold in U.S. dollars.

The latest currency realignment is making southern wood products more attractive overseas. To see where the opportunities may lie, let me review the principal wood products exported from the South and the major overseas markets for these products.

Southern Exports

Southern wood exports are composed of four primary product groups — roundwood, lumber, wood-based panels, and miscellaneous manufactured products (Figure 1). Lumber is the largest export, typically accounting for about 40 to 45 percent of the annual value of wood shipments. Panel products, however, form the only group that has increased since 1980. The large decline for the miscellaneous group is somewhat misleading; 1980 shipments were unusually high due to a large, one-time

shipment of prefabricated housing to Syria.

Southern pine lumber is the leading export item. Oak lumber follows. These two products dominate lumber shipments. Southern pine plywood recently has become the third largest export item and, along with hardwood veneer, makes up most of the panel shipments abroad.

Primary roundwood exports include hardwood logs, poles, and wood chips. The largest shipments within the miscellaneous products group are building components and structures, such as millwork and prefabricated buildings.

Western Europe and the Caribbean Basin are the two major overseas markets for southern wood products (Figure 2). In 1984, western Europe purchased almost half of the total value of southern wood products exported. Most important were nations in the European Economic Community (EEC), or Common Market.

These nations were the largest buyers of the major hardwood exports — logs, lumber and veneer — as well as selected southern pine products — plywood, veneer, and roughcut, clear timber. Wood chips, bound for Scandinavia, and rough southern pine

lumber comprised the largest shipments to European countries outside EEC.

The Caribbean market includes the West Indies and Central America. For the most part, the Caribbean is a market for softwood products of all types, with southern pine lumber the most prominent item. Unlike shipments to Europe, the majority of the southern pine exported to the Basin is finished lumber; however, the percentage of rough lumber being shipped is growing.

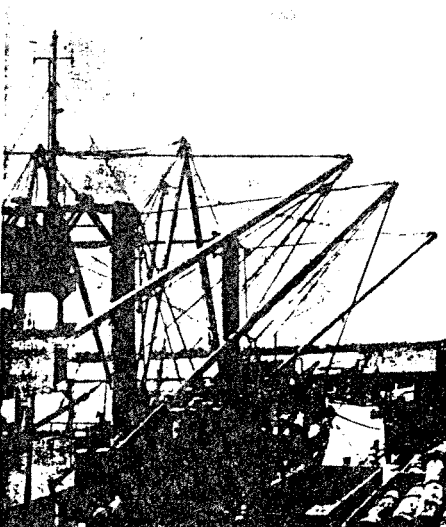
Still, the primary Caribbean use is for construction, while pine lumber shipped to Europe is used for joinery, paneling, and furniture parts. Other significant exports to the Caribbean are treated products, including lumber, poles, and posts. The region is also the largest buyer of products in the miscellaneous group.

Although technically not an export market because it is a possession of the United States, Puerto Rico is also an important destination for southern shipments to the Caribbean. In 1984, U.S. wood shipments to Puerto Rico were valued at more than \$76 million, of which nearly \$70 million was shipped from southern ports. In line with other Caribbean markets, softwood products — plywood, lumber, particleboard, and poles, in that order — were the principal shipments.

Other notable markets are specific regions within Asia. Oil exporting nations in the Middle East import southern poles, prefabricated buildings, and other building components; and countries in the Far East — Japan, Taiwan, South Korea — have surfaced as new and growing markets for hardwood lumber.

Outlook

The strength of the dollar since 1980 has made southern wood products more expensive and less competitive in foreign markets. In the near term, trends in wood exports will continue to be determined by exchange rate developments; that is, any improvement overall will probably depend upon a continued weakening of the dollar. We are beginning to see signs of export improvement stemming from the recent dollar decline. Although exports of southern pine lumber and plywood were down slightly



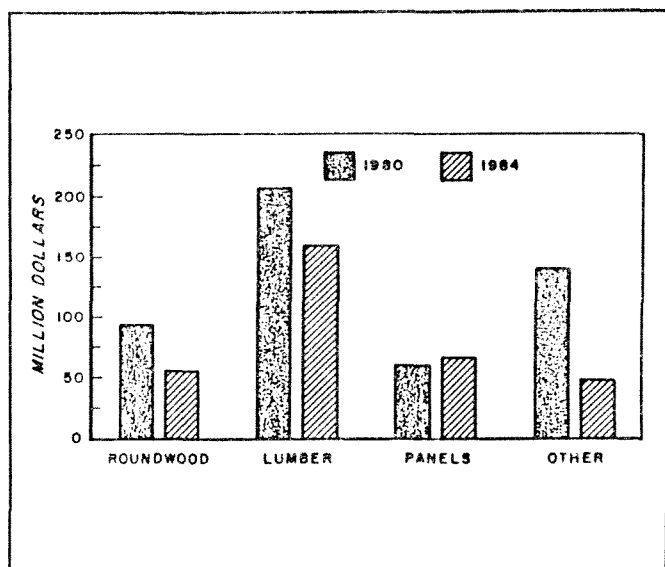


Figure 1 — Value of southern wood exports by product group, 1980 and 1984.

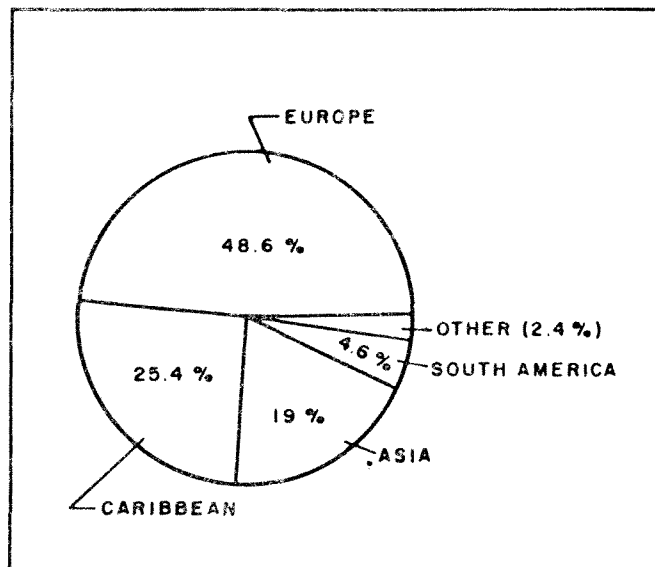


Figure 2 — Export markets for southern wood products, 1984.

overall in 1985 compared with 1984, shipments in the third and fourth quarters were above those of the previous year.

Exchange rate developments will also play a significant role in the long-term outlook. It's largely through exchange rates that the relative competitive position of different countries is established. Indeed, the head of the General Agreement on Tariffs and Trade recently stated that tariffs, on average, are no longer significant obstacles to world trade. What counts more, in his opinion, are exchange rates for national currencies. Currency shifts over the long term are difficult to predict, but more and more proposals are surfacing to modify the current system of floating exchange rates to prevent the wide fluctuations that have occurred over the past decade.

Apart from the uncertainty surrounding monetary conditions, however, the long-term outlook for southern wood exports appears more favorable — provided world economic conditions continue to improve, and the forest products industry maintains a commitment to expand export markets.

Western Europe appears to offer opportunities to increase the export of several southern wood products. All Common Market countries are net importers of forest products, and their wood deficit is expected to widen substantially in the years ahead.

Most current exports of southern pine lumber to western Europe have been high quality, clear material. Such shipments can probably be increased if more southern producers make efforts to sort and grade their best material for shipment to Europe.

For southern pine plywood, a European quota is an obstacle, since an 11 percent tariff was required on amounts that exceeded the quota. This tariff, however, recently decreased to 10 percent. And southern pine's percentage share of total U.S.

plywood exports continues to rise. It climbed to 53 percent in 1985 after averaging only 5 percent during the 1970s.

We should also see continued European interest in hardwood lumber and veneer for use in furniture manufacturing. This interest might spread to more species than oaks.

Future shipments of southern softwood products to Caribbean markets will depend in large part on the rate of economic progress in the area, the actions of competing softwood suppliers, and whether exporting programs are designed to meet the unique characteristics of the market.

Although per capita incomes are relatively low in most countries, rapidly expanding populations are generating housing needs that support continuing imports due to the lack of domestic softwood resources. Political instability in Central America has disrupted the flow of lumber from that area, but Honduras — the largest — competitor — is expanding sawmilling capacity. Chile also has been a recent supplier of radiata pine lumber in the region. Thus, maintaining or expanding southern shipments will require aggressive and innovative marketing efforts.

The developing market for hardwoods in the Far East may become even more significant. This is somewhat of a mixed blessing, however, because U.S. furniture manufacturers must compete with the imports coming back into our country.

An encouraging development for future southern wood exports has been the involvement of industry trade associations and government agencies in the promotion of wood products in foreign markets. The Southern Forest Products Association, and others, in cooperation with National Forest Products Association and the Foreign Agricultural Service, have developed programs that will support increased sales to countries that offer

potential for export expansion.

For example, both SFPA and APA have conducted educational seminars in Caribbean countries where the use of softwood products could be expanded. In addition, SFPA placed a European representative in London last year, and, just recently, added a Caribbean representative in the Dominican Republic.

Success in developing these markets, however, may be determined in large part by the extent of the commitment of southern producers to exporting. In the past, interest in exporting has declined as domestic markets improved, leaving U.S. producers with a reputation as unreliable suppliers. But progress is being made in changing this perception. Several recent articles in foreign trade journals have noted a growing commitment by U.S. producers to exporting, as well as favorable view concerning our reliability compared with other world sources of wood products.

Thus, the challenge of increasing wood exports must be met primarily by industry. But support is needed from others, including government. There have been some significant federal actions recently, including creation of the Forest Products Division in the Foreign Agricultural Service and passage of the Export Trading Company and Shipping Acts. Actions that complement the federal effort also are beginning to receive attention at the state level, in areas such as export financing, trade promotion, and state authorization for export trading companies.

In summary, if southern timber processors continue to recognize the market potentials abroad, receive appropriate support from other parties involved in trade activities, and get some relief from the overvalued dollar, southern forest farmers will be successful participants in upcoming international trade in wood products. □